

MINNESOTA
DEPARTMENT OF
PUBLIC SERVICE

DIRECT TESTIMONY AND EXHIBIT OF
EDWARD C. BODMER
ON
MERGER SAVINGS AND FREEZE CONDITIONS

BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

IN THE MATTER OF A REQUEST FOR
APPROVAL OF THE MERGER OF
NORTHERN STATES POWER COMPANY
WITH
WISCONSIN ENERGY CORPORATION

DOCKET No. E,G002/PA-95-500

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DIRECT TESTIMONY OF EDWARD C. BODMER
NORTHERN STATES POWER COMPANY

TABLE OF CONTENTS

	Page
I. BACKGROUND.....	1
II. PURPOSE OF TESTIMONY.....	3
III. OVERVIEW OF ANALYTICAL APPROACH AND CONCLUSIONS.....	4
IV. REVIEW OF NSP'S FUNCTIONAL HEADCOUNT ANALYSIS.....	13
V. REVIEW OF ACTUAL COST SAVINGS IN ELECTRIC UTILITY MERGERS.....	24
VI. STATISTICAL ANALYSIS OF NSP'S AND WEPCO'S PRODUCTIVITY.....	36
VII. SUMMARY AND RECOMMENDATIONS.....	39

1 I. BACKGROUND

2 Q. State your name, business address and occupation.

3 A. My name is Edward C. Bodmer. My business address is 205
4 North Michigan Avenue, Suite 4315, Chicago, Illinois 60601.

5 I am an economic and financial consultant specializing in
6 matters related to the electric utility industry.

7 Q. On whose behalf are you testifying and what is the subject of
8 your testimony?

9 A. I am testifying on behalf of the Minnesota Department of
10 Public Service (the Department or DPS).

11 Q. Summarize your educational background and business and
12 professional experience.

13 (A) I received a B.S. degree in Finance (with highest honors)
14 from the University of Illinois in 1979 and an MBA degree
15 (with honors) from the University of Chicago in 1986.

16 My regulatory experience began with my employment on the
17 Accounting and Finance Staff of the Illinois Commerce
18 Commission. I subsequently completed numerous assignments on
19 regulatory subjects as a consultant. As a vice president at
20 the First National Bank of Chicago, I managed credit analysis
21 of all energy loans, which included transactions for electric
22 and gas utility companies. I also directed a number of
23 energy-related financial advisory projects for bank clients.

24 In my current practice I have completed assignments for
25 financial institutions, utility companies and governmental
26 agencies involving industry restructuring, forecasting,
27 pricing, resource planning and performance evaluation. I

1 have testified on a wide variety of subjects, including
2 regional cost-of-service, management efficiency, asset spin-
3 offs, construction programs, optimal capital structures, rate
4 design, and credit quality.

5 Q. Do you have experience related to analyzing the cost
6 structure of electric utility companies that is relevant to
7 the evaluation of estimated merger-related savings?

8 A. Yes. Over the course of my career I have directed a number
9 of projects related to analyzing the cost structures of
10 electric utility companies. For example, I have:

- 11 • measured the productivity of distribution,
12 transmission and generation assets for 125 electric
13 utility companies using regression analysis;
- 14 • quantified the cost performance of individual
15 electricity distribution companies in New Zealand;
- 16 • testified on differences in value and cost to serve
17 between various regional areas of a large electric
18 utility company;
- 19 • developed cost-structure and productivity comparisons
20 of electric utilities in the course of financial
21 advisory work; and
- 22 • over the past six years developed a comprehensive
23 database and detailed statistical models to
24 evaluate the management performance of U.S.
25 electric utility companies.

26 In addition to these selected relevant projects, I have
27 reviewed published articles and filed testimony regarding

1 cost savings claimed to arise from mergers of electric
2 utility companies. Also, my academic and professional
3 background includes course work in various aspects of
4 measuring productivity and forecasting operating costs.
5 Finally, I have authored a number of articles on performance
6 measurement, regulatory policy and utility financial
7 analysis.

8
9 **II. PURPOSE OF TESTIMONY**

10 Q. What is the purpose of your testimony?

11 A. I have been retained by the DPS to review estimates of the
12 corporate and operations labor savings that would result from
13 the merger of Northern States Power (NSP) and Wisconsin
14 Electric Power Company (WEC) into Primergy. Based on that
15 analysis I sponsor alternative estimates of merger-related
16 savings. My testimony responds principally to the analysis
17 presented in the testimony of NSP witness Thomas Flaherty,
18 who projects that \$1,205 million of "corporate and operations
19 labor" savings would occur from the Primergy merger from 1997
20 through 2006.

21 Corporate and operations labor savings account for the
22 largest share -- 55.2 percent -- of NSP's estimated savings
23 from the merger. These projected savings result from
24 "manpower" reductions related to the "consolidation of
25 corporate administration and technical support functions."
26 These reductions represent 1,223 employees, or 10.1 percent
27 of the total (12,095) existing positions at NSP and WEC.

1 Q. Have you prepared any exhibits in support of this testimony?

2 A. Yes. DPS Exhibit No. ____ (ECB-1) through DPS Exhibit No.
3 ____ (ECB-6) were prepared by me or under my direction.
4

5 **III. OVERVIEW OF ANALYTICAL APPROACH AND CONCLUSIONS**

6 Q. What conclusions have you reached regarding the projected
7 level of corporate and operations labor savings resulting
8 from the Primergy merger?

9 A. The ultimate amount of savings NSP and WEC would be able to
10 achieve from the proposed merger cannot be estimated with a
11 high degree of precision. However, I do agree with Mr.
12 Flaherty that some savings could be achieved from the merger
13 of NSP and WEC that could not result from management actions
14 without a combination. These savings primarily arise from
15 avoiding duplicate work activities that would not be possible
16 absent a merger and eliminating job positions that would
17 become redundant. Employee reductions projected by NSP would
18 probably occur, in fact, because these cost reductions
19 generally result from direct actions by the management of the
20 merged company (i.e., laying-off or not hiring new employees)
21 and do not require the cooperation of outside entities such
22 as equipment suppliers.

23 However, after reviewing the workpapers of Mr. Flaherty,
24 NSP's responses to information requests, and estimated as
25 well as actual savings from other mergers in the electric
26 utility industry, I conclude that the level of workforce
27 reductions not attainable absent the merger is probably less

1 than NSP's estimate. Some of NSP's estimated savings from
2 manpower reductions may not occur and, most importantly, many
3 of the eliminated NSP positions could theoretically have been
4 eliminated without a merger. For example, savings could have
5 arisen from merging NSP's Eau Claire office with the
6 Minneapolis office absent a NSP/WEC merger. Furthermore, the
7 savings estimated by NSP are significantly greater than the
8 actual savings realized in other mergers.

9 Because projected merger savings are uncertain, I have
10 developed a range of estimated savings rather than asserting
11 that a single, precise projection is possible. Table 1
12 compares my estimated range of corporate and operations labor
13 savings -- directly attributable to the merger -- with the
14 estimates developed by Mr. Flaherty. The high end of my
15 range is 839 employee reductions, which is 69 percent of
16 NSP's projection. The low end of my range is 637
17 eliminations, which is 52 percent of NSP's projection.

18
19 Table 1
20 Summary of Estimated Corporate and Operations
21 Labor Savings From the Primergy Merger

	Nominal Savings over 10 Years (\$ Millions)	Number of Employee Reductions	Percent Reductions in Employees
26 NSP Estimate	\$1,205	1,223	10.1%
27 DPS Low-End Projection	\$656	637	5.27%
28 DPS High-End Projection	\$864	839	6.94%

29 The principal reasons why my projections of merger-related
30 savings are lower than the estimates developed by Mr.
31 Flaherty include the following:

- 32 • Many positions that NSP projects to eliminate through

1 closing the Eau Claire office could have been
2 eliminated without the NSP/WEC merger.

- 3 • A detailed function-by-function analysis of employee
4 reductions demonstrates that many of the position
5 reductions other than the reductions that arise
6 from closing the Eau Claire offices are dubious
7 estimates, in the sense that the savings could be
8 achieved without the merger.
- 9 • A comparison of the *estimated* labor savings in the
10 Primergy merger with estimated percentage
11 headcount reductions in other mergers shows that NSP's
12 estimates are significantly greater. There is no
13 evidence of circumstances sufficiently unique about
14 the Primergy merger to account for that magnitude of
15 difference.
- 16 • A comparison of *actual* headcount reductions with the
17 cutbacks achieved in completed utility company
18 mergers demonstrates that actual achieved savings
19 have ranged from 0 to 7 percent, and most
20 mergers have achieved employee reductions far
21 below the savings estimates developed by Mr.
22 Flaherty.
- 23 • Mr. Flaherty understates the productivity
24 improvements that NSP could achieve absent the merger.
25 My analysis indicates that, based on NSP and WEC's
26 productivity compared with that of other electric
27 utilities, savings of approximately \$20 million per

1 year are possible if NSP and WEC achieve "top quartile
2 performance." In contrast, Mr. Flaherty estimates
3 productivity improvements of about \$9.6 million per
4 year due to "pre-merger initiatives."

5 Q. Summarize your approach for determining the projected savings
6 you are sponsoring.

7 A. My analysis of estimated merger-related savings, which are
8 shown in Table 1, are derived from a three-part analysis:

- 9 1. A function-by-function review of whether NSP's
10 projected eliminations in headcount are attributable
11 to the merger. In this analysis, I examine the
12 logic behind NSP's estimates of duplicate work
13 activity and review estimated savings in other
14 mergers.
- 15 2. A comparison of NSP's savings estimates with actual
16 data from other electric utility company mergers to
17 verify the reasonableness of the estimates against
18 objective/quantitative benchmarks.
- 19 3. A productivity study of the potential for NSP and
20 WEC to achieve administrative cost savings without
21 a merger. This study further supports my other
22 analyses of whether NSP's projected corporate
23 and operations labor savings are truly "merger-
24 related."

25 In the function-by-function review I examine the logic of
26 classifying costs of the amount and type of work that people
27 perform in the eliminated positions as the result of the

1 merger or other factors. As part of the function-by-function
2 review, I develop the low-end and high-end projections shown
3 in Table 1 below. I derive these savings estimates by
4 analyzing the work activities of each function and NSP's
5 explanations of why the positions are made redundant by the
6 merger. The difference between my high-end and low-end
7 projections reflects different judgments with respect to how
8 much duplicate workload would be created by the merger.

9 I have used the data from other electric utility mergers
10 to *verify* my high-end and low-end savings estimates. The
11 high end of my range (employee reductions of 6.9 percent) is
12 consistent with *estimates* in other mergers. (The average
13 estimated reduction in six completed mergers was 6.25
14 percent. The six mergers examined were the Centerior,
15 Pacificorp, IES, Western Resources, Cinergy and Midamerican
16 Energy mergers provided in response to DPS Information
17 Request No. 272.) My low-end estimate of 5.27 percent is
18 consistent with *actual* employee reductions achieved in five
19 completed mergers in the industry.

20 Perhaps the most significant issue in reviewing NSP's
21 merger-related savings estimates and in reviewing the savings
22 actually achieved in other mergers is evaluating increases in
23 productivity that could be obtained without a merger. To
24 address this issue, and thereby further verify my estimates,
25 I have analyzed NSP's and WEC's administrative expense levels
26 relative to those of other electric utility companies. The
27 productivity analysis quantifies whether NSP and WEC can

1 potentially achieve significant cost reductions through
2 performing at the top quartile of the industry in terms of
3 administrative costs. My research demonstrates that NSP can
4 achieve reductions in administrative and general costs in
5 greater amounts than Mr. Flaherty's "pre-merger initiatives"
6 if the Company obtains "top-quartile performance." The
7 productivity portion of my testimony, therefore, supports my
8 conclusion that cost savings specifically attributable to the
9 merger are lower than NSP's estimates.

10 Q. How do the savings estimates developed by NSP compare with
11 actual and estimated savings in other utility mergers?

12 A. NSP's estimated savings from employee reductions of 10.1
13 percent are significantly greater than the employee-related
14 cost reductions that have actually been achieved in other
15 electric utility company mergers. Table 2 demonstrates that
16 NSP projects more cutbacks in employees and a higher
17 reduction in administrative and general expenses than either
18 the actual or the estimated savings associated with other
19 mergers.

Table 2
Primergy Estimates Compared With
Actual Savings in Completed Mergers

	Actual Percent Reduction in Number of <u>Employees</u>	Estimated Percent Reduction in Number of <u>Employees</u>	Actual Percent Reduction Administrative & General <u>Expense</u>
Primergy Estimates	Not Known	10.1%	27% Est.
Centerior	7%	3.4%	0%
Pacificorp	0%	11.5%	18%
Midwest Power Systems	0%	N/A	12%
IES	3%	5.8%	0%
Western Resources	0%	6.6%	0%
Cinergy	N/A	4.2%	N/A
Midamerican Energy	N/A	6.0%	N/A

- Q. You were not involved in creating the organizational structure of the Primergy merger, and you are not employed by either NSP or WEC. How then were you able to analyze and project merger-related savings for the NSP/WEC combination?
- A. There is no doubt that NSP and WEC have devoted substantial resources to analyzing and structuring the Primergy merger. Furthermore, NSP and WEC obviously are more familiar with the details of their operations than someone who is not employed by either company or involved in their planning. However, my evaluation of NSP's projected merger-related savings is based on data NSP provided in response to my information requests. I accept these responses as the utility's best available and complete answers. That information is supplemented by my review of empirical data from other mergers in the electric utility industry. Through analysis of this information I can develop an independent range of merger-related savings for three reasons.

First, by not being directly involved in the process I

1 can review NSP's analysis without pre-conceived notions about
2 the benefits and costs of the merger.

3 Second, by critically examining NSP's detailed
4 explanations of why savings in specific areas would not be
5 attainable without the merger of NSP and WEC, I am able to
6 test the logic and rationale for each of the savings
7 categories.

8 Third, by comparing NSP's savings projections (on an
9 aggregate basis) to comparable industry data, I can test the
10 plausibility of the estimates.

11 Q. Describe in more detail the sources of information you have
12 used to analyze projected savings from the Primergy merger.

13 A. My analysis of NSP's estimated merger-related savings is
14 based on the following sources of information:

- 15 • Testimony and workpapers presented by Mr. Flaherty
16 on behalf of NSP.
- 17 • NSP's responses to information requests on the
18 development of savings estimates for specific
19 categories of employee reductions that NSP deems
20 unachievable without the merger.
- 21 • Information on estimated savings (in the specific cost
22 areas cited by NSP) from testimony presented in other
23 electric utility company merger cases, as well as from
24 responses to information requests to other
25 commissions.
- 26 • Comparative data on actual costs and employee counts
27 in companies that have completed mergers relative to

1 singular companies that face similar business
2 conditions to the merged companies. For this
3 comparison I have used a database compiled by the
4 Utility Data Institute (UDI).

5 Q. Explain how the remainder of your testimony is organized.

6 A. The remainder of my testimony is divided into three parts:

- 7 1) A function-by-function review of employee reductions
8 estimated by Mr. Flaherty to evaluate the
9 reasonableness of his savings projections;
- 10 2) A statistical analysis of actual cost savings
11 achieved in other electric utility company mergers;
12 and
- 13 3) A productivity analysis to determine whether NSP
14 could achieve significant savings without the
15 Primergy merger.

16 My high- and low-end savings estimates are developed in part
17 1 through an analysis of work activities in the areas
18 projected to have reduced staff levels. In part 1 I also
19 include a function-by-function comparison of NSP's estimates
20 with *estimated* function-by-function savings in other mergers.

21 In part 2 I analyze *actual* savings achieved in other
22 mergers by reviewing industry data on employee levels and
23 administrative and general expenses. This analysis uses
24 reported data from five mergers that have been completed in
25 the electric utility industry. Data from the merged
26 companies are compared with similarly situated companies in
27 the industry before and after the merger "event" to establish

1 savings that can be attributed to the merger.

2 Part 3 analyzes NSP and WEC's productivity, using a
3 statistical model of administrative costs. This model
4 develops an "expected" level of administrative costs as a
5 function of business conditions for NSP and WEC using
6 regression analysis. I compare the expected cost level with
7 actual costs to gauge the relative productivity of NSP and
8 WEC. If the companies can achieve savings by equaling the
9 productivity of the top quartile of utility companies, I
10 assign these cost reductions to pre-merger initiatives.
11 Again, I include a productivity analysis to support the
12 projected level of savings that can be directly attributed to
13 the merger. If NSP can achieve greater savings without the
14 merger ("pre-merger initiatives") than the pre-merger savings
15 estimated by Mr. Flaherty, then projected savings
16 attributable to the merger may be reduced.

17 18 IV. REVIEW OF NSP'S FUNCTIONAL HEADCOUNT ANALYSIS

19 Q. Describe the approach you have used to review and adjust
20 NSP's estimated function-by-function corporate and operations
21 labor savings.

22 A. By asking NSP to explain the logic of employee reductions and
23 through comparing NSP's estimates with data from other
24 mergers, I assess whether NSP's projected man-hour savings
25 are realistic and whether the savings could be achieved
26 without a merger.

27 NSP's workpapers break down the expected labor

1 reductions by function. Some of the reductions are obviously
2 amenable to merger-related economies, while other projections
3 are dubious in terms of whether the reductions are directly
4 related to duplicate work activities created by the merger.
5 For example, Mr. Flaherty projects 26 merger-related employee
6 reductions in the area of executive staff. Since major
7 decisions at Primergy would be performed on a consolidated
8 basis and the merged company would have one Chief Executive
9 Officer, these merger-related reductions are plausible. In
10 other words, executive staff is an area where a merger would
11 indeed logically create redundant functions between NSP and
12 WEC.

13 Other projections, however, are questionable. For
14 example, Mr. Flaherty estimates that the merger would
15 eliminate 127 employees from the call center and customer-
16 service area. Employees who work in the call center and who
17 provide customer service are a function of the number of
18 customers rather than the size of the corporation. The logic
19 of why these savings arise from duplicate workload created by
20 the merger is much less obvious.

21 Q. How have you organized your review of NSP's estimated
22 detailed work-force reductions?

23 A. I first compare the savings projected by NSP with estimated
24 savings in other merger attempts on a function-by-function
25 basis. Next, I evaluate the logic behind NSP's specific
26 estimates of headcount reductions in terms of whether the
27 estimated savings could be achieved without the Primergy

1 merger. I separate the latter evaluation into two parts:
2 merger-related savings from NSP's closing its corporate
3 office in Eau Claire, Wisconsin, and other projected savings.

4 NSP's estimates compared with estimates for other
5 mergers in the electric utility industry on a function-by-
6 function basis are presented in DPS Exhibit No. ____ (ECB-1).
7 The savings from the Eau Claire office that I have concluded
8 could not occur absent a WEC/NSP merger are presented in DPS
9 Exhibit No. ____ (ECB-2). My analysis of NSP's other
10 projected savings is presented in DPS Exhibit No. ____ (ECB-
11 3).

12 Q. How do the projected savings developed by NSP compare with
13 estimates in other merger attempts on a function-by-function
14 basis?

15 A. In DPS Exhibit No. ____ (ECB-1) I compare NSP's estimated
16 employee reductions with estimates offered in other attempted
17 mergers of electric utility companies. The first column of
18 the exhibit shows the category of savings as defined by NSP
19 in its workpaper entitled "detail overlap analysis." Next, I
20 list the percentage reduction in total employees that Mr.
21 Flaherty projects to arise from the Primergy merger. In the
22 remaining columns I show savings estimates in two other
23 mergers for which I have obtained a comparable function-by-
24 function breakdown.

25 As I stated earlier and documented in Table 2, the total
26 estimated employee eliminations of 10.1 percent are greater
27 for Primergy than for any completed merger except PacifiCorp.

1 I have reviewed extensive testimony from many other mergers;
2 however, the Midwest Resources merger and the Public Service
3 (PS) of Colorado merger are the only cases that include
4 detailed data on employee reduction percentages. For many
5 functions, the estimated savings for the Primergy merger are
6 significantly greater than the savings in the other mergers.
7 For example, while NSP projects a 25-percent employee
8 reduction in human resources, Midwest Energy projects 14
9 percent and Public Service of Colorado 20 percent. Principal
10 reasons for the large estimate for Primergy are reductions in
11 nuclear operations and the closing of the Eau Claire office.
12 Other areas with large reductions include the call center,
13 customer service and marketing (90 employees), information
14 resources (150 employees), and substation and transmission
15 service organization (75 employees).

16 Q. Are you convinced that circumstances in the NSP/WEC merger
17 are sufficiently different from the other electric utility
18 industry mergers to yield such significantly greater savings?

19 A. Generally, no. While NSP asserts that its Eau Claire office
20 makes the Primergy merger unique, the Company's argument is
21 not convincing. Mr. Flaherty believes that a significant
22 reason for the greater savings in the NSP/WEC combination
23 than in other mergers is the savings from closing NSP's Eau
24 Claire office:

25
26 The existence and structure of NSPW, which is a
27 separate legal entity within NSP, deserves special
28 discussion. As a separate legal entity, NSPW is
29 fully staffed, self-sufficient and has a corporate

1 headquarters in Eau Claire. This is a unique and
2 distinguishing characteristic that increases the
3 potential for available cost savings from a
4 combination of NSP and WEC above other utility
5 mergers with which I am familiar.
6

7 Direct Testimony of Thomas J. Flaherty to FERC, page 12.

8 As I explain below, much of the savings from closing the
9 Eau Claire office could have been achieved without an NSP/WEC
10 merger. Furthermore, I note that many of the other mergers
11 were between companies operating in the same state (e.g.,
12 Centerior, Midwest Power Systems, Western Resources,
13 Midamerican Energy and IES). Using Mr. Flaherty's logic,
14 these companies should experience even larger savings than
15 Primergy, because the companies need retain only one
16 corporate office. In contrast, both the Minneapolis and
17 Milwaukee offices would be needed if the Primergy merger were
18 completed.

19 Q. What headcount reductions in the Eau Claire office do Mr.
20 Flaherty and NSP estimate are related to the Primergy merger?

21 A. NSP attributes \$275.7 million (23 percent) of its corporate
22 and operations labor merger-related savings over ten years to
23 the closure of NSP-W's corporate offices in Eau Claire. (See
24 NSP's response to DPS Information Request No. 157.) NSP
25 derives these savings by assuming that 276 of the 305 non-
26 production, non-field operations employees at the office
27 could be eliminated because of the merger. In addressing Eau
28 Claire savings, Mr. Flaherty states that the cost reductions
29 could not be achieved by merging NSP-M and NSP-W into one

1 company:

2
3 The Eau Claire headquarters and associated
4 administrative personnel are required to conduct
5 the extensive utility operations of NSPW in
6 Wisconsin. The merger presents the opportunity to
7 combine the Wisconsin headquarters operations of
8 two utilities while maintaining the presence in the
9 State of Wisconsin necessary to operate the
10 significant operations of both utilities. Without
11 a merger, the NSPW Eau Claire and WEPCO Milwaukee
12 headquarters operations could not be consolidated.
13 ... Given the scale of NSPW's Wisconsin operations,
14 a significant Wisconsin presence would be required
15 regardless of the corporate structure that is in
16 place. For the same reason, a significant presence
17 is required in Minnesota. The savings that I have
18 calculated are associated with combining the
19 corporate functions currently located in Eau Claire
20 and Milwaukee, but maintaining an operating company
21 headquarters in the State of Wisconsin. While NSP
22 and NSPW could be merged, Minneapolis and Eau
23 Claire corporate functions could not be combined
24 while at the same time maintaining a significant
25 operating company presence in both states.
26

27 Direct Testimony of Thomas J. Flaherty to FERC, pages 7-
28 8.

29 In sum, Mr. Flaherty believes that, given the scale of
30 NSP-W's operations, a significant operating presence in
31 Wisconsin would be required, regardless of the corporate
32 structure chosen. Therefore, he argues that only a merger
33 with a Wisconsin utility would allow the Eau Claire office to
34 be closed without losing a significant operating-company
35 presence in the state.

36 Q. Do you agree with Mr. Flaherty's assertion that the Eau
37 Claire office could be closed only through NSP's merging with
38 a Wisconsin company?

1 A. No. Mr. Flaherty's argument that a separate NSP headquarters
2 organization is needed in both Wisconsin and Minnesota
3 without a NSP/WEC merger has little merit.

4 NSP's position assumes that it is important to maintain
5 corporate offices in any state where the Company's operations
6 reach a certain magnitude. In its response to DPS
7 Information Request No. 97 in the pre-hearing stage of this
8 proceeding, NSP states the following with respect to why it
9 maintains the Eau Claire office:

10
11 These functions are key to the successful delivery
12 of quality and responsive service, particularly
13 where large geographic operations and a critical
14 mass of customers exist.

15 The customer-service rationale for merger savings related to
16 a corporate office inside state boundaries in which a utility
17 provides service is questionable. NSP's corporate offices in
18 Minneapolis are closer to NSP's service territory near Eau
19 Claire than the Milwaukee offices (the planned site of the
20 corporate offices that would provide services to Primergy's
21 Wisconsin customers). Because of the significant reductions
22 in the Eau Claire office, and because of the uncertainty of
23 whether those reductions are truly attributable to the
24 merger, I have analyzed the projected savings in the Eau
25 Claire office separately from NSP's other projected workforce
26 reductions.

27 Q. Explain DPS Exhibit No. ____ (ECB-2), which is entitled
28 "Projected merger-related savings from closing the Eau Claire
29 headquarters organization."

1 A. This exhibit analyzes the savings from closing NSP's Eau
2 Claire headquarters. The company asserts that its projected
3 savings could not arise "but for the NSP/WEC merger." I have
4 evaluated that claim by considering the potential savings
5 that could arise from a merger of NSP-W and NSP-M *without* a
6 WEC combination. NSP has not performed such a study of
7 merging its Eau Claire and Minneapolis headquarters. In
8 response to DPS Information Request No 275, NSP states:

9
10 NSP-W was acquired in December 1923,
11 including the Eau Claire headquarters and
12 associated administrative personnel. There
13 are no known internal studies.

14 Certain reductions in revenue-requirements analysis and
15 legal services that would result from an NSP/WEC merger could
16 not be realized by merging NSP-M and NSP-W, because rate
17 cases, resource plans, avoided-cost filings and other
18 regulatory requirements would be required in Wisconsin for
19 both NSP-W and WEC. However, many other savings due to
20 consolidating general customer services, human resources,
21 information resources, administrative services and electric
22 operations could also be achieved by consolidating Eau
23 Claire's administrative functions in Minneapolis rather than
24 Milwaukee. In fact, because Minneapolis is closer to Eau
25 Claire than Milwaukee, savings in some areas might even be
26 greater.

27 The first column in DPS Exhibit No. ____ (ECB-2) shows
28 the categories presented on Mr. Flaherty's workpapers, which
29 he entitles "detail overlap analysis." The second column

1 shows the current positions at NSP-W, and the third column
2 shows the estimated reductions in positions at Eau Claire
3 that NSP estimates would continue to exist "but for the
4 NSP/WEC merger." The fourth column presents the employee
5 reductions that I estimate could be achieved through
6 consolidating NSP-W and NSP-M rather than the proposed
7 NSP/WEC merger. The fifth column describes each functional
8 area and whether merger-related savings could be achieved
9 from a merger of NSP-W and NSP-M alone.

10 Q. Describe the major findings of your Eau Claire analysis.

11 A. DPS Exhibit No. ____ (ECB-2) demonstrates that 202 of NSP's
12 projected 276 employee reductions from closing the Eau Claire
13 office could also be achieved through an NSP-W/NSP-M merger.
14 The concomitant adjustment to NSP's projected merger-related
15 savings reduces the corporate and operations labor savings
16 from \$1,205 million to \$880 million, or a reduction of 27
17 percent.

18 Q. Describe DPS Exhibit No. ____ (ECB-3), which develops high-
19 end and low-end projections of employee reductions other than
20 those reductions associated with the Eau Claire office.

21 A. DPS Exhibit No. ____ (ECB-3) presents my analysis of
22 projected savings that arise from duplicate work activities
23 other than the closure of the Eau Claire office. The first
24 column describes the function. Columns 2, 3 and 4 show the
25 employment levels for each function for WEC, NSP and total
26 Primergy without merger-related savings. Column 5 displays
27 NSP's projected employee reductions, while columns 6 and 7

1 show my high-end and low-end estimates of merger-related
2 position eliminations. Column 8 describes the work activity
3 performed in the function, NSP's logic for eliminating
4 positions based on the merger, and my basis for developing
5 the low-end and high-end estimates.

6 To illustrate how I analyze the merger savings, consider
7 the example of the legal services function. NSP projects
8 that, after accounting for two position reductions at Eau
9 Claire, eight employees (or 21.05 percent of the existing
10 legal services positions of NSP and WEC) could be eliminated
11 because of the NSP/WEC merger. The function of the legal
12 department involves working on various regulatory filings,
13 litigation contracts and other caseload. If the NSP/WEC
14 combination were to reduce caseload significantly because of
15 operations as a single corporate entity, attributing a 21-
16 percent reduction in legal positions to the merger would be
17 plausible. On the other hand, if NSP cannot objectively
18 demonstrate reduced caseload, the projected legal savings are
19 dubious.

20 To address the potential savings from reducing positions
21 in the legal department, I asked NSP to specify the number of
22 cases that could be reduced from the merger, the type of
23 caseload (e.g. regulatory, litigation, contracts, etc.), and
24 the nature of the positions that are projected to be cut
25 (legal, paralegal, secretarial, etc.). NSP was unable to
26 provide specific information in response to these three
27 requests. Therefore, I have evaluated potential savings by

1 considering the logic of whether the merger would create
2 redundant workload. Other than reduced regulatory
3 requirements in Wisconsin, which were analyzed previously in
4 DPS Exhibit No. ____ (ECB-2), there is little obvious
5 reduction in caseload that would arise from the merger. For
6 example, a similar level of regulatory filings, workers-
7 compensation cases, contract litigation and other caseload
8 should exist after the merger is complete. Therefore, I
9 characterize the legal reductions as dubious and I adjust the
10 merger-related reductions from four employees to two
11 employees. My rationale for the reduction of two employees
12 is that the merger may yield some supervisory and managerial
13 efficiencies.

14 Column 8 of DPS Exhibit No. ____ (ECB-3) offers comments
15 similar to the above discussion of the legal function to
16 derive low-end and high-end estimates of projected employee
17 reductions attributable to the merger.

18 Q. Describe your findings on employee reductions other than
19 those due to closure of the Eau Claire office.

20 A. The last row on DPS Exhibit No. ____ (ECB-3) demonstrates
21 that while NSP projects 998 employee eliminations for reasons
22 other than closing the Eau Claire office, my high-end
23 estimate is 765 reductions and my low-end estimate is 563
24 reductions. Table 3 compares my estimated employee
25 reductions with NSP's estimates:

Table 3
Merger-Related Position Eliminations

	<u>NSP</u>	<u>DPS</u> <u>High-End</u>	<u>DPS</u> <u>Low-End</u>
Eau Claire Office	225	74	74
Non-Eau Claire	998	765	563
Total	1,223	839	637
Percent of NSP's Estimate		68.6%	52.1%

V. REVIEW OF ACTUAL COST SAVINGS IN ELECTRIC UTILITY MERGERS

Q. Why have you analyzed actual and estimated savings for other electric utility company mergers in addition to your function-by-function review?

A. In estimating the savings associated with electric utility combinations, various factors may lead companies that are proposing mergers to over- or under-estimate the levels of expected savings. For example, the management of a utility company may believe that if the level of expected savings is high, then the merger will have a greater chance of being approved by regulatory bodies. Further, because savings estimates are by definition unknown at the date of the merger, it is instructive to evaluate the projections in light of actual data.

While the levels of savings projected by NSP and in other merger proceedings is significant, there are open questions in the industry as to whether mergers are necessary to achieve the savings. For example, Charles Studness has questioned whether mergers are necessary to achieve savings:

Similarly, merger agreements tend to be driven by a desire to grow, rather than by strategic

1 objectives. Given the success of management
2 efforts to cut costs, it seems plausible that cost
3 savings equivalent to those claimed for mergers
4 could be achieved without the mergers. Utilities
5 naturally manage their cost-cutting in ways that
6 will enable them to enjoy the benefits as long as
7 possible. This strategy sometimes means a delay in
8 cost reductions if regulators are in a position to
9 pass the benefits on to customers immediately (thus
10 denying such benefits to utility stockholders).
11 However, by attributing such cost savings to a
12 merger, a utility can capture the benefits of the
13 cost-cutting opportunities by using them to finance
14 the merger. In the process, the utility gets
15 bigger but not necessarily better.

16
17 Studness, Charles M., "What to do With all That Cash,"
18 *Public Utilities Fortnightly*, September 1, 1996.

19 Because of the skepticism associated with estimated
20 merger savings, I analyze the *actual* level of savings
21 achieved in completed mergers in this section of my
22 testimony.

23 Q. How do you compare NSP's savings projections to savings that
24 have actually been achieved in other electric utility company
25 mergers?

26 A. I use data reported by electric utility companies in FERC
27 Form 1 to measure employee reductions and expense cuts that
28 have actually occurred due to electric utility mergers.
29 Using the reported data, I compare pre-merger with post-
30 merger information for mergers in the industry. I focus on
31 two items of data measured in FERC Form 1:

- 32 • Total electric department employees as reported on
33 page 323 of FERC Form 1. For example, in 1995
34 WEC reported 3,871 employees, NSP Minnesota reported

1 5,639 employees and NSP Wisconsin reported 722
2 employees.

- 3 • Total administrative and general operating expenses as
4 reported on pages 322 and 323 of FERC Form 1. In 1995
5 WEC reported \$109 million of administrative and general
6 expenses (39 percent of non-production operation and
7 maintenance expenses). NSP Minnesota reported \$157
8 million of administrative and general expenses in 1995
9 (42 percent of non-production expenses). NSP
10 Wisconsin reported \$21 million in administrative and
11 general expenses (30 percent of non-production
12 expenses).

13 Q. Why do you focus on those two data items -- the number of
14 employees and administrative and general expenses -- in
15 analyzing the actual level of savings achieved in other
16 electric utility mergers?

17 A. I use these categories of data because:

- 18 • reliable information is available from data reported
19 to FERC;
20 • these are the most significant cost items likely
21 to be influenced by mergers; and
22 • the data is comparable to estimated savings developed
23 by NSP and in presentations on the benefits of
24 other mergers.

25 For example, reductions in employees drive most of the merger
26 savings projected by NSP. The number of total employees is
27 reported in FERC Form 1 and tabulated in a database that

1 compiles the FERC data for all utilities (the UDI database).
2 Furthermore, many of the utility companies that have
3 attempted mergers have estimated the expected percentage
4 reduction in employees.

5 I also evaluate administrative and general expenses
6 because these expenses are more subject to merger-related
7 savings than most other expense categories reported in FERC
8 Form 1. Production, transmission, distribution and customer
9 expenses are less prone to merger-related savings than
10 administrative expenses. A merger should not change the
11 required number of production plants, the amount of direct
12 customer service, or the amount of transmission and
13 distribution facilities. I have calculated that NSP
14 attributes approximately 27 percent of its merger-related
15 savings to reductions in administrative and general salary
16 expenses.

17 Q. What methodology have you developed to apply the data on
18 employee counts, salaries and wage costs, and administrative
19 and general expenses to measure savings achieved in completed
20 mergers?

21 A. I use the following five-step procedure for actual merger
22 "events" in the electric utility industry:

- 23 1. Measure pre-merger costs and employee counts: For
24 four years prior to completion of the merger (or less
25 if data is unavailable) I tabulate the costs and
26 employee counts for the two merging companies. For
27 example, Kansas Gas & Electric (KGE) and Kansas Power

1 and Light (KP&L) merged in 1992. Therefore, for
2 employee counts, the pre-merger data is the sum of
3 electric department employees for KP&L and KGE in
4 1991, 1990, 1989 and 1988.

- 5 2. Measure post-merger costs and employee counts: For
6 three years after completion of the merger, I
7 tabulate the levels of costs and employee counts.
8 In the case of KP&L and KGE, the electric department
9 employees are summed from Western Resources and
10 KGE for the years 1993, 1994 and 1995.

11 (The three-year period is used to capture the full
12 extent of the savings from the merger.)

- 13 3. Create an index for each of the pre-merger and
14 post-merger costs: Beginning with the first year of
15 pre-merger data, I convert the data to an index
16 number. Using the example of the KP&L/KGE employee
17 count, 1988 is assigned an index value of 100.
18 The index values for the subsequent years are then
19 computed from the percentage change in employee
20 counts.

- 21 4. Benchmark index values to comparable companies:
22 I compute index values for a comparison group
23 over the same period as for the merger. For example,
24 in the KP&L/KGE merger, a benchmark index of
25 employee counts is developed for the pre-merger event
26 period of 1988 through 1991 and the post-merger event
27 period of 1994 and 1995.

1 5. Compute a pre-merger and post-merger relative index
2 to gauge changes due to merger: In the final step of
3 the analysis I divide the costs or headcount index for
4 the merged company by the index of the benchmark
5 group to establish a "relative index." The relative
6 index in the pre-merger period compared with the
7 index in the post-merger period establishes the
8 actual level of savings achieved through the merger.
9 For example, in the KP&L/KGE merger the index of
10 employee counts for KPL/KGE is divided by the
11 benchmark index for the pre-merger years of 1988-1991
12 and the post-merger years of 1993-1995. If the
13 relative index for the post-merger period is 5
14 percent below the benchmark index for the pre-merger
15 period, savings of 5 percent are attributed to the
16 merger.

17 Q. How do you determine which completed mergers to use in your
18 comparison of actual with estimated savings?

19 A. I first compile a list of completed mergers in the industry,
20 then evaluate whether data is available to complete the five-
21 step process defined above. For data to be useful in the
22 analysis, the merger must have actually been completed and
23 there must be enough data for the periods both prior to the
24 merger and after the merger.

25 The database I use to measure cost and employee
26 information (the UDI database) includes FERC Form 1 data from
27 1985 through 1995. Therefore, I am unable to evaluate

1 mergers that were completed prior to 1985. Similarly, for
2 mergers which were completed in 1994 or 1995, there is an
3 insufficient post-merger time frame to evaluate the cost
4 savings actually achieved from the merger.

5 DPS Exhibit No. ____ (ECB-4) presents combinations of
6 large investor-owned electric utility companies that have
7 occurred over the past ten years. The exhibit shows the
8 companies that merged, the surviving company, the year the
9 merger was completed, and whether sufficient pre-merger and
10 post-merger data is available to assess actual savings. I
11 exclude small mergers such as UtiliCorp acquisitions.

12 Based on the information in DPS Exhibit No. ____ (ECB-
13 4), the mergers I use to measure actual savings are:

- 14 • Centerior Energy (1986),
- 15 • Pacificorp (1989),
- 16 • Midwest Power Systems (1992),
- 17 • Western Resources (1992), and
- 18 • IES Utilities (1993).

19 Q. How do you evaluate the levels of savings achieved through
20 these mergers?

21 A. To measure the savings actually achieved in a merger, the
22 cost levels or employee counts must be evaluated relative to
23 an external criterion. For example, if a merging company
24 significantly cut expenses during the time of a merger, but
25 similarly situated companies not involved in mergers cut
26 expenses by the same amount, then it is reasonable to
27 conclude that the reductions could have occurred without the

1 merger. Similarly, if expenses of a merged company increased
2 at a slower rate than expenses of similar companies not
3 involved in mergers, then we can reasonably attribute savings
4 to the merger even though the absolute level of expenses
5 increased. The comparison benchmarks for evaluating the
6 merger-related savings include two alternative approaches:

- 7 • Similar companies as defined by size, regional
8 location and cost structure; and
- 9 • Average industry trends in costs levels or employee
10 counts, adjusted to exclude merged companies.

11 Q. How have you developed criteria for selecting the benchmark
12 of similarly situated companies?

13 A. My criteria for selecting similarly situated companies are
14 regional location, company size and corporate structure. My
15 specific criteria include the following:

- 16 • Regional Location: Selected comparable firms are
17 located in neighboring states, because these firms
18 often face reasonably similar business conditions --
19 such as employment growth and geography (i.e.,
20 investor-owned utility companies in the same state as
21 one of the merging companies or in a neighboring state
22 of one of the merging companies).
- 23 • Size: Revenues of selected non-merger comparable
24 firms are within a range of 75 percent above or below
25 the merged company.
- 26 • Corporate Structure: Companies involved in a merger
27 are not included in this sample, because the

1 benchmark is intended to measure cost trending that
2 would be expected without a merger.

3 DPS Exhibit No. ____ (ECB-5) shows the similarly
4 situated companies that I use to establish a comparison base
5 for each merger.

6 Q. How have you computed the second benchmark for comparable
7 costs -- average industry trends in costs and employee
8 counts?

9 A. In addition to gathering data on similarly situated
10 companies, I calculate the year-by-year "industry-wide" cost
11 levels and employee counts. The index for comparable
12 companies is developed by gathering data from investor-owned
13 utility companies that have data in the UDI database.
14 Companies with less than 200 employees are excluded, as are
15 companies that have gone through mergers. Once these
16 "filters" are implemented, the sample includes 115 companies.
17 I then compute two types of industry averages: averages
18 weighted by the size of the companies; and unweighted
19 averages which give equal weight to each company regardless
20 of size.

21 A. Describe the first page of DPS Exhibit No. ____ (ECB-6),
22 which presents the results of your "event" analysis of the
23 Pacificorp/Utah Power and Light merger.

24 A. DPS Exhibit No. ____ (ECB-6) includes graphs that illustrate
25 results from my analysis of achieved savings in actual merger
26 cases. Page 1 of the exhibit displays the Pacificorp
27 analysis. The top graph shows employee reductions that could

1 potentially be attributed to the Utah merger. The bottom
2 chart demonstrates trends in administrative and general costs
3 during the merger period. In the case of Pacificorp, the
4 number of employees in the four years prior to completion of
5 the merger in 1989 was 2.7 percent more than the number of
6 employees in the post-merger period (1.007 versus 0.98).
7 However, over the same period, the employee levels for the
8 peer group declined by 5 percent and employee levels based on
9 the unweighted industry average fell by 1.6 percent.
10 Therefore, I conclude that it is not possible to attribute
11 Pacificorp's reduction in employees to the merger between
12 Pacific Power & Light and Utah Power. (According to Mr.
13 Flaherty, Pacificorp projected a decline in employees of more
14 than 11 percent.)

15 The bottom graph on page 1 of DPS Exhibit No. ____ (ECB-
16 6) shows that Pacificorp did achieve significant reductions
17 in administrative and general expenses after completion of
18 the Utah Power/Pacific Power merger. Based on the average
19 pre- and post-merger indices, Pacificorp achieved a 14-
20 percent reduction in administrative and general expenses. In
21 contrast, the peer group experienced a 13-percent increase.
22 Using my relative index methodology, this amounts to a 23-
23 percent cost advantage.

24 If the single year 1983 (four years prior to the merger)
25 and the single year 1992 (three years after the merger) are
26 used, Pacificorp realized a 2.3-percent increase in
27 administrative and general expenses, while the peer group

1 experienced a 24.7-percent increase. On this basis
2 Pacificorp realized a 18-percent cost advantage over the peer
3 group during the merger period.

4 In analyzing administrative and general costs, the use
5 of a single-year index (i.e., computing the percentage
6 savings on the basis of the single year four years prior to
7 the merger and the single year three years after the merger)
8 is more appropriate than using an index based on the average
9 of several years. The problem with using an average is that
10 increases in administrative costs immediately prior to the
11 merger that are related to the merger transaction can distort
12 the pre-merger average index value.

13 Q. Summarize pages 2 through 5 of Exhibit No. ____ (ECB-6).

14 A. Page 2 of DPS Exhibit No. ____ (ECB-6) shows my analysis of
15 the Midwest Power Systems merger between Iowa Public Service
16 and Iowa Power Company. Data for 1996 is not available in
17 this merger, because Midwest Power Systems subsequently
18 merged with Iowa Illinois Gas and Electric. In this case,
19 the merged company experienced somewhat more employee
20 reductions than the peer group (a relative index of 3
21 percent), although the relative index on the basis of the
22 national average was less than 2 percent. As was the case
23 with Pacificorp, Midwest Power Systems achieved a lower level
24 of administrative and general expenses than the peer groups
25 or the national average during the post-merger period. On
26 the basis of four years before the merger as compared to two
27 years after the merger, the reduction relative to the peer

1 group was 12 percent. Using the single-year approach, the
2 relative index is 14 percent.

3 The Western Resources merger is presented on page 3 of
4 DPS Exhibit No. ____ (ECB-6). As was the case with
5 Pacificorp, there is no evidence that employee reductions
6 were greater in the merger case than for peer companies or
7 the industry average. From the perspective of administrative
8 and general expenses, however, the Western Resources merger
9 generated reductions of 22 percent relative to the peer group
10 using pre- and post-merger averages, while the relative
11 savings were 10.5 percent using single-year 1988 and 1995
12 data.

13 The fourth merger I analyzed -- the IES combination of
14 Iowa Electric Light and Power and Iowa Southern -- is
15 presented on page 4 of the exhibit. In this case, the merger
16 did not produce significant savings based on either employee
17 counts or administrative and general costs.

18 The final merger I present on page 5 of DPS Exhibit No.
19 ____ ECB-6) is the Centerior merger of Cleveland Electric
20 Illuminating Company and Toledo Edison Company. Since the
21 merger was completed in 1986, I only have one year of pre-
22 merger data. Further, because of the completion and
23 cancellation of nuclear units, the employee count data could
24 be skewed. If the employee reductions are attributed to the
25 merger, applying the relative index suggests savings of 7
26 percent. However, in terms of administrative and general
27 costs, there were no observed savings from the Centerior

1 merger.

2 Q. What have you concluded from the analysis of cost data for
3 the five mergers that have been completed in the industry?

4 A. My analysis demonstrates that significant employee reductions
5 attributable to a merger cannot be objectively demonstrated
6 with reported data. On the other hand, some savings in
7 administrative and general expenses can potentially result
8 from a combination. My analysis of actual mergers confirms
9 that the merger-related reductions in employees projected by
10 Mr. Flaherty of 10.1 percent are probably greater than the
11 cuts that would be achieved from a WEC/NSP merger. Indeed,
12 the actual savings achieved in other mergers are closer to my
13 low-end projection than my high-end projection.

14
15 **VI. STATISTICAL ANALYSIS OF NSP'S AND WEPKO'S PRODUCTIVITY**

16 Q. Why have you analyzed NSP and WEC's productivity?

17 A. One of the important issues in analyzing merger-related
18 savings is whether the savings could arise without a
19 combination. Stated another way, if productivity can be
20 significantly increased through management actions without a
21 merger, then the observed productivity improvements should
22 not be attributed to the merger. To address this issue I
23 analyze whether NSP and WEC can significantly increase their
24 productivity by performing at levels comparable to the most
25 efficient companies in the industry. For reasons stated
26 previously, I focus my analysis on administrative and general
27 expenses.

1 Q. How do you use the concept of expected A&G cost per MWh and
2 actual cost per MWh to establish a measure of relative
3 productivity?

4 A. Once expected cost levels (which are a function of the
5 business conditions faced by each company) are established,
6 the expected costs are compared to actual costs. If the
7 actual costs experienced by a company are less than expected
8 costs, the company is defined to have a relatively high level
9 of productivity. The expected cost levels are adjusted for
10 "business conditions" specific to each company, such as the
11 regional cost of living, residential usage, and customer mix.
12 The expected costs are derived from a regression model on all
13 non-merged companies in the industry with more than 200
14 employees.

15 Companies in the industry can be ranked on the basis of
16 actual as compared to expected costs. The company with the
17 largest negative difference between actual and expected costs
18 (i.e., where the actual cost is much less than the expected
19 cost) is modeled as having the highest level of productivity
20 in the industry.

21 Q. How do expected A&G costs per MWh compare with actual costs
22 for NSP and WEC?

23 A. Both NSP and WEC report actual A&G costs below the expected
24 levels computed from the regression model. Since a company
25 that is performing at average productivity levels for the
26 industry will have expected cost levels equivalent to actual
27 cost levels, these results suggest that NSP and WEC are

1 performing at higher productivity levels than the industry
2 average.

3 Q. If NSP and WEC are performing at better productivity levels
4 than the industry average, can you still conclude that there
5 is potential for efficiency improvement without a merger?

6 A. Yes. Mr. Flaherty develops a standard that NSP and WEC
7 should operate in the top quartile of the industry, rather
8 than at the average level of performance. Therefore, if NSP
9 and WEC's performance falls below the top 25 percent of
10 firms, potential savings from efficiency can theoretically be
11 achieved without a merger. In other words, if the non-merger
12 efficiency standard is the top quartile of firms in the
13 industry, and if WEC and NSP are currently performing below
14 the top-quartile level, then they can realize savings from
15 additional "pre-merger initiatives."

16 Q. Can NSP and WEC theoretically realize non-merger-related A&G
17 savings by performing at the top quartile of the industry?

18 A. Yes. My analysis of expected and actual costs demonstrates
19 that -- based on the difference between actual and expected
20 A&G costs -- both NSP and WEC could realize lower costs if
21 their performance was at the top-quartile level. To derive
22 the potential reduction in A&G costs, I first compute the
23 difference between actual and expected costs for the firm
24 that is barely operating within the top quartile (25th best
25 out of 100 firms). Next, I derive the actual level of A&G
26 cost per MWh for NSP and WEC that would improve their ranking
27 to that of the 25th-percentile firm. Finally, I multiply the

1 reduction in A&G cost per MWh by retail sales to derive a
2 dollar estimate of efficiency potential.

3 Q. What is your conclusion from the productivity analysis with
4 respect to NSP's estimated merger-related savings?

5 A. In developing savings estimates, Mr. Flaherty estimates that
6 NSP and WEC can generate \$96 million of savings through pre-
7 merger initiatives from 1997 through 2006. These savings
8 rise gradually from \$5.3 million in 1997 to \$12 million in
9 2006. My productivity analysis suggests that NSP and WEC can
10 achieve much greater annual savings, approximately \$20
11 million, through achieving the top-quartile standard.

12 The implication of my productivity analysis is that if
13 more savings are available from pre-merger initiatives than
14 the amounts estimated by NSP, then fewer savings would
15 probably be attributable to the merger. This information
16 supports my high-end and low-end projected savings, which are
17 lower than Mr. Flaherty's estimates.

18
19 **VII. SUMMARY AND RECOMMENDATIONS**

20 Q. Summarize your analysis of NSP's estimated merger-related
21 savings in corporate and operations labor.

22 A. My testimony demonstrates that corporate and operations labor
23 savings attributable to the Primergy merger should range from
24 52 percent to 69 percent of NSP's estimate. This range of
25 savings is developed from a function-by-function review of
26 NSP's analysis. The reductions to NSP's projections in
27 employee eliminations are confirmed by an analysis of other

1 mergers in the industry. This analysis shows that the low-
2 end of my estimated range of employee reductions is greater
3 than reductions actually achieved. Finally, my lower
4 estimates of savings are supported by my productivity
5 analysis, which shows that significant savings can be
6 achieved through pre-merger initiatives.

7 Table 4 provides my low-end and high-end estimates of
8 annual savings from 1997 through 2006.

9
10 Table 4
11 DPS Year-by-Year Estimated Corporate and
12 Operations Labor Savings from the Primergy Merger
13

	DPS Low-End	DPS High-End
<u>Year</u>	<u>Projection</u>	<u>Projection</u>
1997	37,570,999	52,175,406
1998	50,726,672	66,588,851
1999	54,909,587	72,065,636
2000	59,216,448	77,705,015
2001	63,655,703	83,518,046
2002	68,235,906	89,515,922
2003	72,965,843	95,710,144
2004	77,854,520	102,112,504
2005	82,907,828	108,733,225
2006	88,139,349	115,582,217
Total	656,182,853	863,706,966

27 Q. Does this conclude your testimony?

28 A. Yes.

Comparison of Estimated Employee Reductions on a Function-by-Function Basis

Primergy Function Description	Primergy Percent Reduction in Positions	Midamerican Function Description	Midamerican Percent Reduction in Positions	P.S. Colorado Function Description	P.S. Colorado Percent Reduction in Positions
Customer Service, Sales and Marketing	16%	Customer Services/Inquiry Marketing	9% 4%	Customer Service, Marketing and Sales	10%
Human Resources	25%	Human Resources	14%	Personnel	20%
Business Planning	28%	Financial and Corporate Planning	21%	Finance, Accounting and Planning	22%
Financial and Accounting Management	31%				
Information Resources	29%	Information Systems and Telecommunications	21%	Management Systems	57%
Legal Services	25%	Legal	19%		
Public Affairs	18%	Public Affairs/Corporate Communications	20%	Public Affairs	22%
Administrative Services	5%	Office Services and Administration	19%	Administrative Support	8%
Procurement	33%	Purchasing	23%		
Central Warehouse and Material Management	17%	Materials Management and Stores	0%		
Facilities Management	5%	Facility/Building Maintenance	7%		
Environmental Services	23%	Environmental Services	20%		
Fleet Management and Transportation	12%	Transportation	11%	Aviation	12%
Executive Staff	34%	Executive Office	12%	Executive Staff	18%

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Human Resources: Compensation and Liabilities	12	1	1	Human Resource functions are related more to the number of employees than to state boundaries. Because comparable employee reductions could be achieved either through an NSPM/NSPW merger or an NSP/WEC merger, the HR position eliminations should also be comparable.
Human Resources: Labor Relations	13	2	2	The rationale for labor relations eliminations are the same as for compensation and liabilities.
Human Resources: Training	24	3	3	The rationale for training is the same as for compensation and liabilities.
Human Resources: Health and Safety	23	4	4	The explanation of position reductions in health and safety is the same as the other human relations categories.
General Human Resources	41	6	5	The explanation for this category is the same as the other human relations categories.
Security	4	0	0	
Business Planning	0	0	0	
Business Plan Development	6	0	0	
Strategy	6	0	0	
Asset Accounting	8	6	4	Some supervisory accounting functions which are related to the number of offices rather than state boundaries could be just as easily eliminated in a NSPW/NSPM merger as the NSP/WEC combination. However, I assume that only through a merger with a Wisconsin utility can some regulatory accounting requirements (such as separate FERC form 1's) be eliminated. Therefore, the number of accounting eliminations is assumed to be 4 in the NSPM/NSPW merger versus 6 reductions in the NSP/WEC merger.

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Budget Coordination	4	4	2	Some supervisory accounting functions which are related to the number of offices rather than state boundaries could be just as easily eliminated in a NSPW/NSPM merger as the NSP/WEC combination. However, I assume that only through a merger with a Wisconsin utility can some regulatory accounting requirements (such as separate FERC form 1's) be eliminated. Therefore, the number of accounting eliminations is assumed to be 4 in the NSPM/NSPW merger versus 6 reductions in the NSP/WEC merger.
General Ledger Accounting	12	8	5	The explanation for this category is the same as the explanation for asset accounting.
Tax Accounting	0	0	0	
Audit	0	0	0	
Pricing/Rate Design	4	3	0	Since Wisconsin rate and regulatory filing requirements would not change with the NSPM/NSPW merger, I do not assume any of the reductions which are projected in the NSP/WEC merger would occur in the NSPM/NSPW merger scenario..
Revenue Requirements	2	2	0	The rationale for merger related eliminations in revenue requirement functions is the same as the explanation for pricing and rate design.
Financial Forecast & Investment Analysis	2	2	2	Forecasting functions could be centralized as easily in a NSPM/NSPW merger as a NSP/WEC merger. These functions have little to do with whether the forecasts are prepared in Minneapolis or Milwaukee.
Funds Management	0	0	0	
Cash Management	5	5	4	Cash management could be centralized as easily in a Minneapolis office as in a Milwaukee office.
Insurance and Risk Management	0	0	0	

9 12

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Shareholders Services	0	0	0	
Investor Relations	0	0	0	
Business Unit Support Located Centrally	3	3	3	Employees in this category support budgets and financial forecasts. These functions could probably be centralized as easily in Minneapolis as Milwaukee. Therefore, the savings should be similar in an NSPM/NSPW merger and an NSP/WEC merger.
General Financial & Accounting Management	5	5	5	These functions could be performed at Minneapolis or Milwaukee.
Information Resources	21	21	21	The system technicians and other professionals in this category could probably more easily be integrated in Minneapolis than Milwaukee because the NSPM and NSPW systems are probably more compatible than the NSP and WEC systems. Therefore, I assume an equal level of employee reductions would arise from either an NSPM/NSPW merger or an NSP/WEC merger.
Legal Services	4	2	0	The legal area is influenced by state boundaries because of state regulatory requirements and state laws. Therefore, I assume that none of the reductions which arise from a NSP/WEC merger would exist in a NSPM/NSPW merger.
Public Affairs				
Government-Federal	0	0	0	
Government-State and Metro	0	0	0	
Community-Field	5	0	0	

2

14

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Community-Central Management	3	2	2	Management of employees who represent the company in the community could be moved to Minneapolis as easily as Milwaukee. Therefore, I assume the same number of reductions in an NSPM/NSPW merger as an NSP/WEC combination.
Regulatory	1	1	0	An NSPM/NSPW merger would not reduce regulatory requirements which could potentially be achieved with an NSP/WEC merger. Therefore, I do <u>not</u> assume any reductions in an NSPW/NSPM merger.
Communications	2	2	0	
Administration: Food Service	0	0	0	
Administration: Printing/Mailing/Messenger	2	2	2	The employees who provide services at the corporate facilities could be eliminated from either moving the offices to Milwaukee or to Minneapolis. These eliminations are a function of closure of the office which arises from either an NSPM/NSPW merger or an NSP/WEC combination.
Administration: Document Archive	2	1	1	Same rationale as printing/mailing/messenger.
Administration: Library	0	0	0	Same rationale as printing/mailing/messenger.
Administration: Other	4	2	2	Same rationale as printing/mailing/messenger.
Procurement	6	4	4	Management of materials procurement has very little to do with state boundaries. In fact, because of procurement standards and procedures it may be more easy to consolidate at Minneapolis than Milwaukee. Therefore, I assume the same level of reductions can be achieved from a NSPM/NSPW merger..
Central Warehouse and Materials Management	14	14	0	
Materials Management and Central Stores	1	1	1	

17

31

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Materials Testing and Disposal	1	1	1	Operation of central materials testing and management of the disposal of hazardous materials could be centralized as easily in either Minneapolis or Milwaukee.
Custodial and Maintenance	2	2	2	Custodial services would be eliminated in both the NSPM/NSPW merger and the NSP/WEC merger because of closure of the Eau Claire office in either merger scenario.
Facilities and Management: Planning	0	0	0	
Facilities and Management: General	1	1	1	
Environmental Services	8	8	4	Management of employees who coordinate compliance with environmental rules and procedures could be consolidated in either Minneapolis or Milwaukee.
Fleet and Transportation	16	12	0	
Executive Staff Officers	6	5	5	Executive staff would be redundant with closure of the Minnesota headquarters through either an NSPW/NSPM merger or an NSP/WEC merger.
Executive Staff	3	3	3	The rationale for executive staff is the same as the explanation for executive officers.
Electric Distribution Management	5	3	3	Management of distribution system operations has more to do with geographic proximity than political state boundaries. The reductions from consolidating offices in Milwaukee could just as easily occur from consolidating offices in Minneapolis.
Electric Supply Management	0	0	0	
Wholesale and Transmission Service Management	2	0	0	

20 31

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Substation and Transmission Serv. Organization	43	25	25	Engineering projects, obtaining right of way, drafting, construction and project management are not driven by state boundaries. If savings could be achieved in these functions from a merger, the savings could as easily be accomplished by an NSPM/NSPW merger.
Electric Repair and Testing Centers - Field	0	0	0	
Electric Repair and Testing Centers - Central	17	17	17	If savings could be achieved through merging NSP and WEC in employees who perform tests at repair shops and repair meters, the savings could arise as easily from an NSPM/NSPW merger. These functions have little to do with state boundaries.
Gas Management	0	0	0	
System Operations, Control and Dispatch	0	0	0	
Gas Supply	6	6	0	I have assumed that potential savings which are available in an NSP/WEC merger would <u>not</u> be available from an NSPM/NSPW merger because of the possibility that there is more pipeline supply overlap in between NSP and WEC than from NSPW and NSPM.
Gas Standards and Engineering Services	13	10	8	If engineers who are involved in the planning, engineering and mapping of the gas distribution system can be eliminated through an NSP/WEC merger, the employees could be as easily eliminated in the NSPM/NSPW merger scenario.
Locators and Damage Prevention	0	0	0	
Electric Field Operations	229	0	0	
Gas Field Operations	41	0	0	
Combination	26	0	0	

Projected Merger Related Savings From Closing the Eau Claire Headquarters Organization

Category Col. 1	Current Positions At NSP-W Col. 2	Reductions Projected By NSP Due To NSP/WEC Merger Col. 3	Potential Reductions From NSPW/NSPM Merger Col. 4	Discussion of Functional Area and Whether Savings Could Be Achieved From An NSP-W/NSP-M Combination Col. 5
Production				
System Operations	21	0	0	I assume that in an NSP/WEC scenario, the Eau Claire dispatch center could be closed because there is less need for a back-up facility. However, in an NSPM/NSP merger, it could be argued that there is still need for a back-up facility. Therefore, I assume that savings arising from an NSP/WEC scenario could <u>not</u> arise from an NSPM/NSPW merger.
Nuclear Operations	0	0	0	
Coal and RDF	17	0	0	
Hydro	87	0	0	
Oil and Gas	8	0	0	
Centralized Production Support-Combustion and Hydro	8	3	3	Production activities are not a function of state boundaries.
Centralized Production Support-All Facilities Inc. Nuclear	0	0	0	
Field Production Support - Combustion and Hydro	0	0	0	
Total	962	276	202	

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
Central Marketing - Electric	0	70	70		0		
Central Marketing - Gas	0	19	19		0		
Central Marketing - Combination	78	0	78	37	37	25	To review potential savings from this function I asked NSP to breakdown positions DSM/non-DSM and supervisory, management/technical clerical. NSP responded that it did not attempt to classify the position reductions into the categories described above. Areas such as load research, DSM program evaluation and design, new product and development are potentially amiable to centralization and duplication. For example, one set of load research class demand studies can be completed rather than the two-three which are currently performed. Therefore, despite the fact that NSP could not explain what specific work activities occurred in this function, or, the categories of employees (e.g., supervisory, technical/management or clerical. Also, I accept the position elimination projections in the high end case. In the low-end case I eliminate 25 rather than 37 positions based upon elimination of team leader and clerical support functions (10) plus 15 additional people due to reduced work load.
Subtotal - Customer Service, Sales and Marketing	78	89	167	37	37	25	
Field Sales - Electric	0	63	63		0		
Field Sales - Gas	0	14	14		0		
Field Sales - Combination	116	14	130		0		
Subtotal - Field Sales	116	91	207	0	0		

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
Central Sales Mgmt. & Support - Electric	0	10	10				
Central Sales Mgmt. & Support - Gas	0	2	2				
Central Sales Mgmt. & Support - Combination	10	0	10	6	6	4	Presumably the sales management and support employees provide services to field personnel related to marketing activities. Currently 22 employees support 227 field personnel which is a ratio of 9.4:1. In information request 299 we asked NSP to specify which positions are redundant. However, NSP did not respond with any specific information. I am not convinced that the marketing support function is naturally amenable to merger savings because there is a limit on how many support employees can provide effective back-up services to field personnel. In the high-end projection I assume that the NSP projected ratio of 12 to 1 employees can be achieved because of merging central functions while in the low-end projection is based on WEC's ratio of 11.5.
Subtotal Central Sales Managment & Support	10	12	22	6	6	4	
Call Center, Cust. Service & Mktg. - Central	312	218	530	90	45	22	Employees who provide customer service in person or service customer requests by telephone are related to the number of customers or requests from customers rather than the size of the company. NSP could not provide a breakdown of employees in this function by call center, cust. serv. and accounting (DPS300). Further, since consolidation of multiple calls centers will not achieve economies after a certain size it is not clear if duplicate activities exist. For example, supervisors monitor quality control by listening in on call. These activities could not be cut without service quality degradation. Therefore, I expect these reductions to be dubious or uncertain. In the high case I used 6.1% reductions due to redundancy in supervisor and support functions. My low-end estimates assume 22 reductions which is a 23% decline.

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
Call Center, Cust. Service & Mktg. - Field	97	105	202				
Subtotal - Call Center, Cust. Service & Marketing	409	323	732	90	45	22	
General Customer Service and Marketing	11	8	19	4	4	2	Customer service should be more related to number of customers than size of company. Therefore, I have reduced the eliminations by 50% in the low-end case.
Meter Reading - Field	149	243	392		0		
Meter Reading - Central Management	4	6	10		2	2	
Subtotal-Meter Reading	153	249	402	2	2	2	I accept NSP's projection for this category because of the potential to eliminate redundant supervisory positions with larger company.
Human Resources: Compensation and Liabilities	12	22	34	8			
Human Resources: Labor Relations	13	11	24	8			
Human Resources: Training	24	54	78	20			
Human Resources: Health and Safety	23	50	73	8			
Human Resources: General Human Resources	43	22	65	15			
Human Resources: Security							

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
Subtotal - Human Resources				59	29	17	NSP was unable to document the magnitude of human relations reductions due to redundancies in the new organization versus how many are attributable to a reduced workload resulting from the smaller number of employees in the new organization. The work activities performed by labor relations, training, health & safety, etc., are related to the number of employees in the company. For example, labor relations will be a primary function of grievances. NSP expected a 20% reduction in HR functions in spite of the fact that it expects to eliminate 10.1% of employees. I have reduced NSP's estimates in the high-end case to 10% based on maximum number of employees than NSP expects to eliminate. In the low-end case I use a 6% assumption based on fewer employee eliminations.
Business Plan Development	6	0	6	0	0		
Strategy	6	6	12	5	5		
Subtotal- Business Planning	12	6	18	5	5	5	Business planning and development functions are amenable to merger savings because only one corporate entity will exist for business planning purposes. Therefore, I accept NSP's estimated eliminations in both the high-end and low-end case.
Asset Accounting	18	26	44	10	10	7	In IR request number 306 I asked NSP to describe a breakdown of employees and in request no. 353 I asked NSP to explain if the accounting systems are compatible. NSP explained that the accounting systems are <u>not</u> compatible which implies significant merger savings in accounting areas are dubious. Indeed, modifications in the accounting systems will be required to account for the new corporate structure (IR request 353). Because of questionable rationale and lack of support the low-end estimate is reduced from 10 to 7 position eliminations.

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employment Level at WEC Col. 2	Employment Level at NSP Col. 3	Employment Level at Primergy Col. 4	NSP Projected Reductions Col. 5	Project-ed Reductions High Col. 6	Project-ed Reductions Low Col. 7	Discussion Col. 8
Budget Coordination	7	7	14	5	5	5	Since NSP explains that "employees in this category support development of budgets on a corporate wide basis", and since fewer corporate budgets would be developed, the functional area is amenable to merger savings. Therefore, I have accepted NSP's estimate in both the high-range and low-range scenario.
General Ledger Accounting	60	58	118	35	35	18	Other than due to closure of Eau Claire, a similar number of general ledgers would be maintained after the merger. Therefore, the number of employees who perform general ledger accounting is not obviously amenable to merger savings -- a similar number of bookkeeping entries will be required with and without the merger. Because of the questionable logic for reducing 35 employees, my low-end estimates eliminates 18 employees (approximately 50% of NSP's estimate).
Tax Accounting	9	8	17	5	5	5	Because Primergy will presumably file one consolidated tax return, some employees who support preparation of the return will logically become redundant due to the merger. Therefore, we adopt NSP's estimated eliminations in both the high-end and the low-end scenario.
Audit	10	12	22	4	4	4	Since the internal audit function is inherently centralized, I have adopted the NSP estimates in the low-range and high-range scenarios.
Pricing/Rate Design	7	17	24	4	2		Theoretically, after recognizing savings from consolidating NSPW and WEC, regulatory requirements of the merged company should not be significantly affected by the merger. Therefore, minimal eliminations are logically related to the merger. However, because of the rate freeze I have assumed 50 percent of NSP's assumed eliminations in the high-end case.
Revenue Requirements	5	19	24	4	2		The logic for revenue requirements is the same as the logic for pricing and rate design.

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
Financial Forecast & Investment Analysis	6	10	16	4	4	4	Financial forecasting and investment analysis will presumably be performed on a consolidated basis rather than separately for WEC and NSP. Therefore, I adopt NSP's estimates in the high-end and low-end scenarios.
Funds Management	4	2	6	2	2	2	Employees who handle funds such as pension could presumably handle higher dollar volumes per person in a merger scenario. Therefore, I assume these eliminations are potentially amenable to merger savings and adopt the NSP estimates in our high-range and low-range case.
Cash Management	7	19	26	6	6	6	Since cash management will be handled on a consolidated basis, I accept NSP estimates in the high-range and low-range scenarios.
Insurance and Risk Management	8	6	14	4	4	4	This treasury area is amenable to merger related savings.
Shareholders Services	5	12	17	4	4	4	Shareholder services are amenable to merger savings because only one set of financial presentations will be made, only one annual meeting held.
Investor Relations	1	3	4	0	0	0	The logic for investor relations is the same as shareholder services.
Business Unit Support Located Centrally	5	30	35	4	4	4	The logic for this function is similar to shareholder services and investor relations.
General Accounting & Financial Management	5	3	8	2	2	1	Since the number of actual financial statements which are prepared will only be reduced by one (1) for regulated businesses (NSPW/WEC) I do not anticipate a substantial reduction. Therefore, the low-end estimate only has one reduction.
Subtotal - Financial and Accounting Management				93	89	64	

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
Information Resources	244	324	568	150	125	75	When asked NSP to identify specific information systems that will be combined and redundant software and employees. NSP has identified 3 systems: the HR Info System, the Graphic System and System Control System which will produce savings due to the merger. Presumably, based on the response in DPS 310 major systems such as the billing system, accounting system, accounts payable/receivable systems are not impacted by the merger. Given the limited systems integration directly related to the merger I used a 22% estimate in the high-end case and a 13% estimate in the low-end scenario which are both lower than the 26% reduction assumed by NSP.
Legal Services	12	26	38	8	4	4	In DPS 315 I requested NSP's estimates of eliminated positions by attorney, paralegal and clerical. NSP was unable to supply this answer. In DPS 316 I requested how much of the legal staffing reductions is attributable to regulatory requirements. NSP was unable to provide specific responses to this request. Based upon the lack of legal caseload, and other than Wisconsin regulatory filing caseload reductions are not obvious from the merger I reduced NSP's estimated reductions by 50% in both the low-end and high-end scenario.
Government-Federal	1	3	4	1	1	1	
Government-State and Metro	8	12	20	0	0	0	
Community-Field	12	7	19	0	0	0	
Community-Central Management	9	7	16	4	4	4	
Regulatory	8	8	16	4	4	4	
Communications	16	34	50	10	10	10	

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
Subtotal - Public Affairs	54	71	125	19	19	10	Activities such as coordinating the activities of the utility with local government in a manner that would be least disruptive to the community, i.e., construction projects, is an example of the activities impacted. This function is more closely related to the diversity of the service area and their communities and less impacted by the size of the corporation except in the case of support activities. However, some centralization is possible and I have used NSP's estimates.
Administration: Food Service	17	0	17	0	0	0	
Administration: Printing/Mailing/Messenger	18	29	47	0	0	0	
Administration: Document Archive	7	16	23	0	0	0	
Administration: Library	1	0	1	0	0	0	
Administration: Other	3	0	3	0	0	0	
Subtotal - Administrative Services	46	45	91	0	0	0	No adjustments were made by NSP in these functions.
Procurement	33	40	73	20	20	20	In response to DPS 322 NSP stated "reductions primarily occur due to economies of scale". In other words, the company was not able to identify specific work activities which are affected by the merger. However, this function is amenable to merger savings because an increased volume of purchases can be facilitated by a similar number of employees. For example, purchasing 10 or 100 personal computers may require the same manpower. Therefore, I have used NSP estimates in the low-end and high-end scenarios.
Materials Management and Central Stores	41	48	89	8	8	8	
Materials Testing and Disposal	14	35	49	3	3	3	

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
Subtotal - Central Warehouse Management	55	83	138	11	11	11	This function includes employees who manage movement of materials, operate the central warehouse, and field storekeepers who manage materials. Since NSP could not identify whether the number of warehouses will change after the merger, these eliminations are not supported. However, we have adopted the NSP estimate because of potential to centralize certain operations.
Custodial and Maintenance	37	36	73	0	0	0	
Planning	1	7	8	0	0	0	
General	3	15	18	2	2	2	
Subtotal - Facilities Management	41	58	99	2	2	2	This level of reductions can probably be achieved through reduced levels of supervisory function. Therefore, I adopt NSP's estimates in the high-end and low-end scenarios.
Environmental Services	25	44	69	10	9	9	NSP claims that environmental savings arise from the ability to "centralize and combine activities" (IR report 355). Despite this general explanation I believe it is possible to reduce some positions from reduced maintenance of filings and databases for compliance.
Fleet and Transportation	75	67	142	8	6	6	NSP's assumption of a 4% reduction in workforce is reasonable due to centralization of management.
Executive Staff: Officers	20	13	33	8	8	8	
Executive Staff: Staff	19	17	36	10	10	10	
Subtotal - Executive Staff	39	30	69	18	18	18	Since major decisions at Primergy will be performed on a consolidated basis these reductions in executive staff are reasonable.

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
Electric Distribution Management	12	7	19	4	2	2	Management of electric distribution operations are not amenable to merger related savings by creating duplicate work activities. Planning and prioritizing distribution system construction and maintenance should not yield merger related savings. However, since some centralization is possible, I use the NSP estimates.
Electric Supply Management	8	36	44	5	5	5	Conducting wholesale and management functions are conducive to merger related savings. Therefore, I have not changed NSP's estimate in the high-end or low-end projection.
Wholesale and Transmission Service Management	6	10	16	2	2	3	Managing interchange agreements are conducive to merger related savings. Therefore I have not changed NSP's estimate in the high-end and low-end projection.
Substation and Transmission Serv. Organization	176	195	371	75	57	39	This function constructs and maintains substations and transmission facilities. The employees plan and manage distribution and transmission projects, develop distribution plant, obtain rights of way, perform drafting and construction. The actual level of activities is more closely related to the number of substations and related transmission equipment and not the size of the corporation. I have reduced NSP's estimate in order to reflect that many of these activities will not be reduced in the merger company. I expect some economies from standards and supervisory reductions but not in the amounts projected by NSP.
Electric Repair and Testing Centers - Field	7	35	42	0	0	0	I have reduced NSP's estimate in order to reflect that many of these activities will not be reduced in the merged company. I would expect some economies from standards and supervisory reductions.
Electric Repair and Testing Centers - Central	29	84	113	0	0	0	
Subtotal - Central Electric Operations	238	367	605	86	66	49	

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
Gas Management	4	3	7	2	2	2	
System Operations, Control and Dispatch	24	13	37	6	6	6	
Gas Supply	10	5	15	3	3	3	
Gas Standards and Engineering Services	33	27	60	10	10	10	
Locators and Damage Prevention	0	3	3	0	0	0	
Subtotal - Central Gas Management	71	51	122	21	21	21	The natural gas functions include central management, procurement and other work activities that could be amenable to merger savings.
Field Operations: Electric	1363	885	2248				
Field Operations: Gas	366	336	702				
Field Operations: Combination	26	441	467				
Subtotal - Electric and Gas Field Operations	1755	1662	3417	0	0	0	
System Operations	34	78	112	20	10	0	I eliminated the redundant control center in the first stage of my analysis. Therefore, I assume no other savings may occur since I already assumed the Eau Claire dispatch center was closed.

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
Nuclear Operations	541	827	1368	270	270	270	NSP asserts that operating nuclear plants in a more centralized fashion could lead to significant economies in non-plant nuclear personnel. Although I am skeptical of this large level of employee reductions given the fact that the plants operate on an independent basis, I believe management of similar units can potentially create savings. I also question whether there is room for savings since the nuclear operations and maintenance expenses for WEC and NSP already are among the lowest in the industry. While the cuts are difficult to achieve, they are possible any my high-range and low-range estimate adopts NSP's projection.
Coal and RDF	785	1000	1785				
Hydro	129	4	133				
Oil and Gas	8	15	23				
Centralized Production Support- Combustion and Hydro	79	4	83	10	10	10	Centralized technical support of the non-nuclear power plants could yield employee reductions of this level. I therefore use NSP's estimate.
Centralized Production Support-All Facilities Inc. Nuclear	0	151	151				
Field Production Support - Combustion and Hydro	0	0	0				
Field Production Support-All Facilities Including Nuclear	0	194	194				
Subtotal - Production	1576	2273	3849	300	290	290	
Total Utility Employees	5239	6322	11651	949	765	563	

Merger Related Employee Reductions Other Than Those Associated With The Eau Clair Office

Function Col. 1	Employ- ment Level at WEC Col. 2	Employ- ment Level at NSP Col. 3	Employ- ment Level at Prim- ergy Col. 4	NSP Projected Reduc- tions Col. 5	Project-ed Reduc- tions High Col. 6	Project- ed Reduc- tions Low Col. 7	Discussion Col. 8
					6.85%	5.05%	

Completed Mergers In The Electric Utility Industry

Merged Company	Pre-Merger Companies	Date of Completion	Merger Analyzed
Centerior Energy	Toledo Edison and Cleveland Electric	April 29, 1986 Centerior became the holding company of Toledo Edison and Cleveland Electric Illuminating. (Note that the subsidies merged in late 1994).	Yes
Pacificorp	Utah Power & Light and Pacific Power	On January 9, 1989 Pacificorp and Utah Power and Light merged into Pacificorp (Oregon).	Yes
Midwest Power Systems	Iowa Public Service and Iowa Power Company	Formed in July, 1992.	Yes
Western Resources	Kansas Gas & Electric and Kansas Power & Light	On March 31, 1992 Western Resources (formerly KP&L) acquired KG&E	Yes
Northeast Utilities	Northeast Utilities and Public Service New Hampshire	On June 5, 1992 completed the merger. PSNH is now a wholly-owned subsidiary.	No; financially Driven.
Cinergy	Public Service of Indiana and Cincinnati Gas & Electric	On October 24, 1994, PSI Resources merged into CINergy.	No; only one year of post merger data.
Midamerican Energy	Iowa Illinois Gas & Electric and Midwest Resources	July 1, 1995 Midwest Resources, Midwest Power Systems and Iowa Illinois Gas and Electric merged with and into Midamerican Energy Co.	No; only one year of post merger data.
IES Utilities	Iowa Electric Light and Power and Iowa Southern	1993 based on IES Ferc form 1 filing.	Yes

Midwest Power Systems and IES Merger

State	Company	Sales	Revenues	Sales Percentage	Revenue Percentage
	Midwest Resources	12,051,644	\$665,607,000	100%	100%
Illinois	Central Illinois Light Company	5,834,896	\$313,086,000	48%	47%
	Central Illinois Public Service	8,515,565	\$697,426,734	71%	105%
Missouri	Empire District Electric	3,736,534	\$176,811,882	31%	27%
	Kansas City Power & Light	16,381,265	\$868,271,899	136%	130%
	Missouri Public Service Company	3,629,394	\$260,371,464	30%	39%
Wisconsin	Wisconsin Public Service	10,552,017	\$480,816,338	88%	72%
	Wisconsin Power & Light	10,859,000	\$513,747,000	90%	77%
Minnesota	Minnesota Power & Light	10,203,115	\$395,603,881	85%	59%
	Otter Tail Power	4,338,847	\$1,988,120,000	36%	299%
Iowa	Interstate Power Company	5,374,734	\$261,730,158	45%	39%

Pacificorp Merger

	Pacificorp	59,325,486	\$2,647,800,000	100%	100%
Washington	Puget Sound Power & Light	18938141	\$1,194,058,339	32%	45%
California	San Diego Gas & Electric	16141637	\$1,510,320,000	27%	57%
Colorado	Public Service of Colorado	23270400	\$1,366,995,957	39%	52%
Arizona	Arizona Public Service	20229057	\$1,626,168,135	34%	61%

Centerior

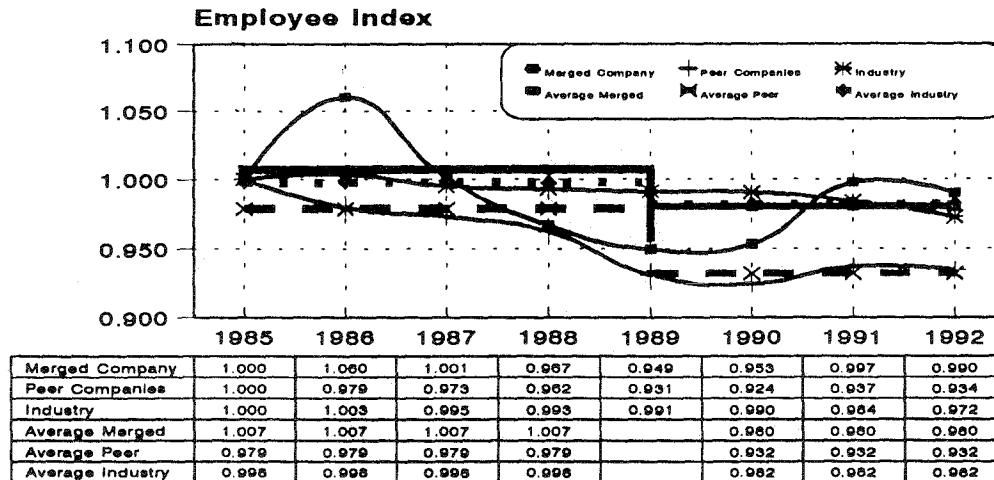
	Centerior	31,225,000	\$2,568,000,000	100%	100%
Ohio	Columbus Southern Power	16,935,000	\$1,031,151,000	54%	40%
	Dayton Power and Light	14,222,774	\$944,000,000	46%	37%
Indiana	Indiana Michigan	26,767,000	\$1,251,309,000	86%	49%
	Indianapolis Power & Light	13,135,972	\$649,767,000	42%	25%
	Northern Indiana Public Service	15,536,394	\$994,492,000	50%	39%
Kentucky	Kentucky Utilities	17,696,369	\$636,651,803	56%	25%
	Louisville Gas and Electric	12,282,613	\$558,946,000	39%	22%
Pennsylvania	Duquesne Light	12,109,484	\$1,150,897,000	39%	45%
	Metropolitan Edison	11,324,282	\$782,053,808	36%	30%
	Pennsylvania Electric	14,486,167	\$918,327,609	46%	36%
	West Penn Power	22,858,371	\$1,544,230,641	73%	60%

Western Resources Merger

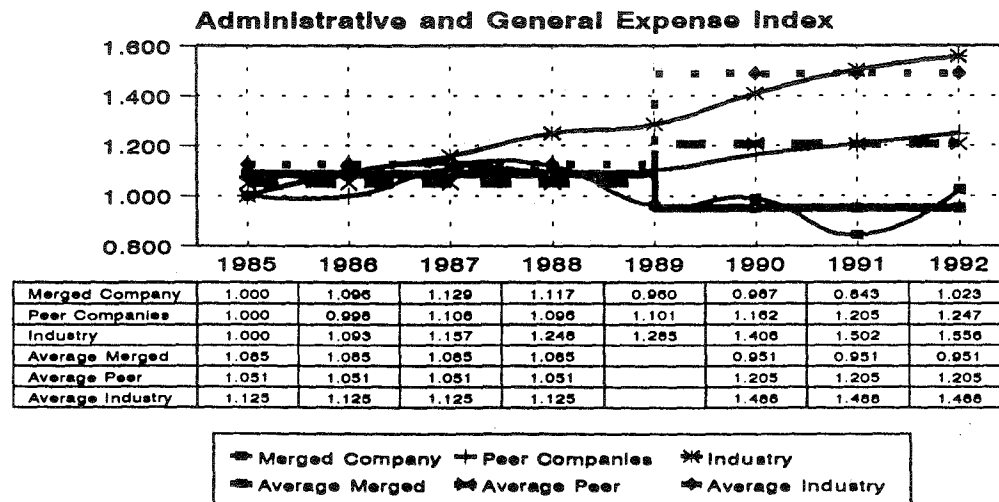
	Western Resources	19,786,135	\$1,119,027,088	100%	100%
Missouri	Kansas City Power & Light	16,381,265	\$868,271,899	83%	78%
	Union Electric Company	31,975,290	\$1,989,533,148	162%	176%
Colorado	Public Service of Colorado	23,270,400	\$1,366,995,957	118%	122%
Oklahoma	Oklahoma Gas & Electric	21,199,440	\$1,196,897,689	107%	107%
	Public Service Company of Oklahoma	15,140,613	\$740,496,000	77%	66%

Analysis of the Pacificorp Merger

Employee Counts Pacificorp Merger

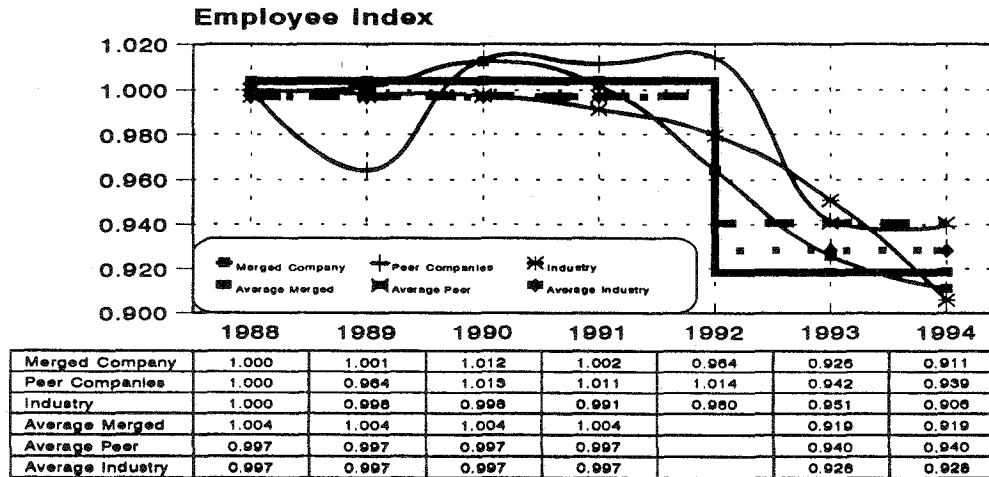


Administrative & General Expenses Pacificorp Merger

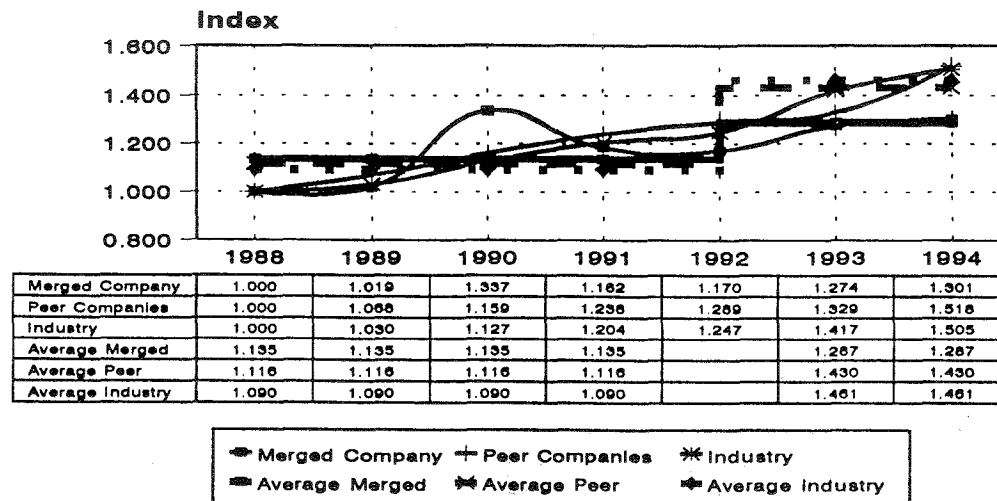


Analysis of the Midwest Power Systems Merger

Employee Counts Midwest Resources Merger in 1992

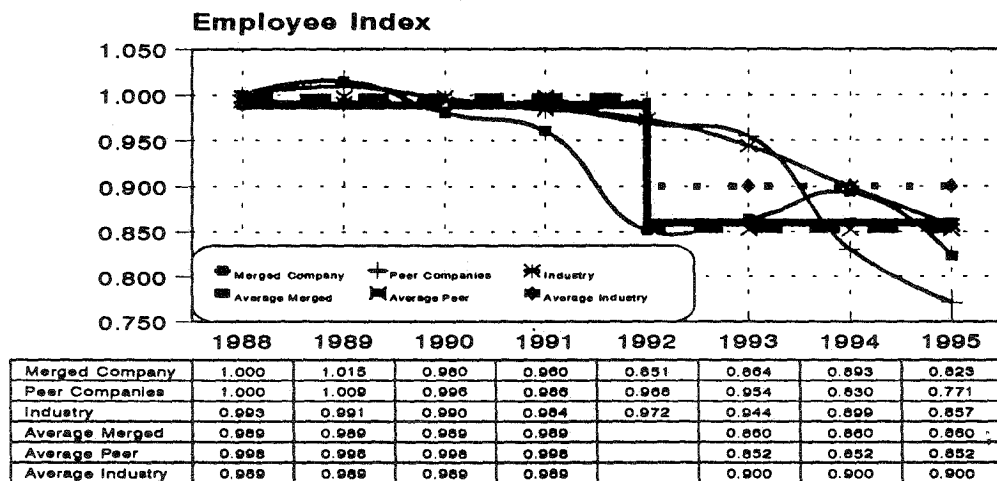


Administrative and General Expenses Midwest Power Systems Merger in 1992

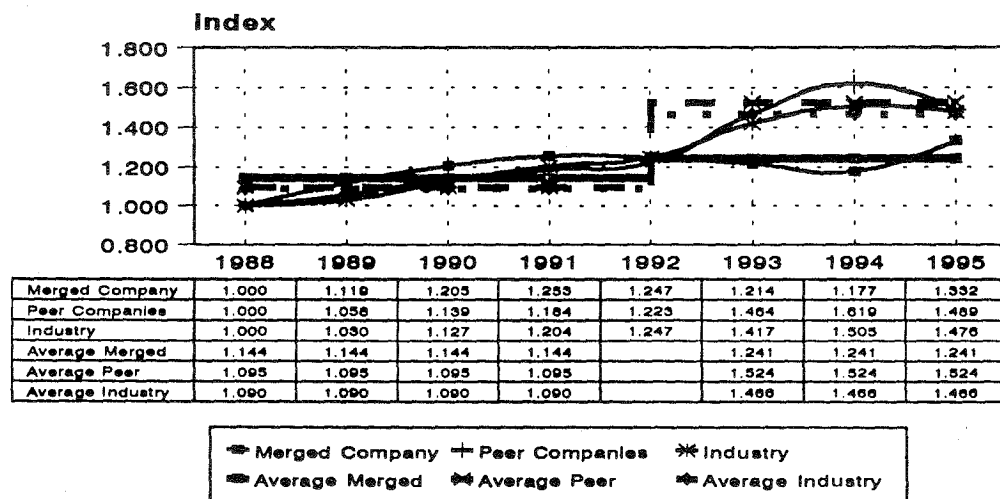


Analysis of the Western Resources Merger

Employee Counts Western Resources Merger in 1992

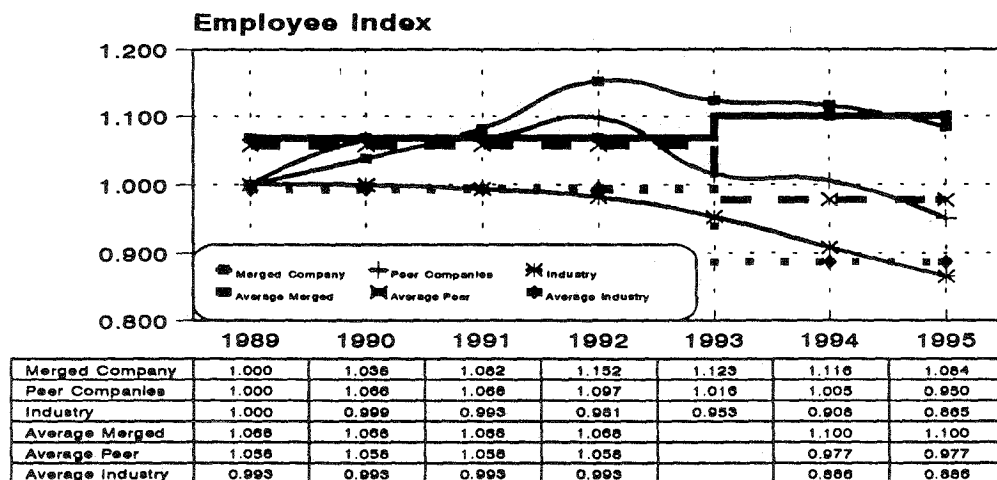


Administrative and General Expenses Western Resources Merger in 1992

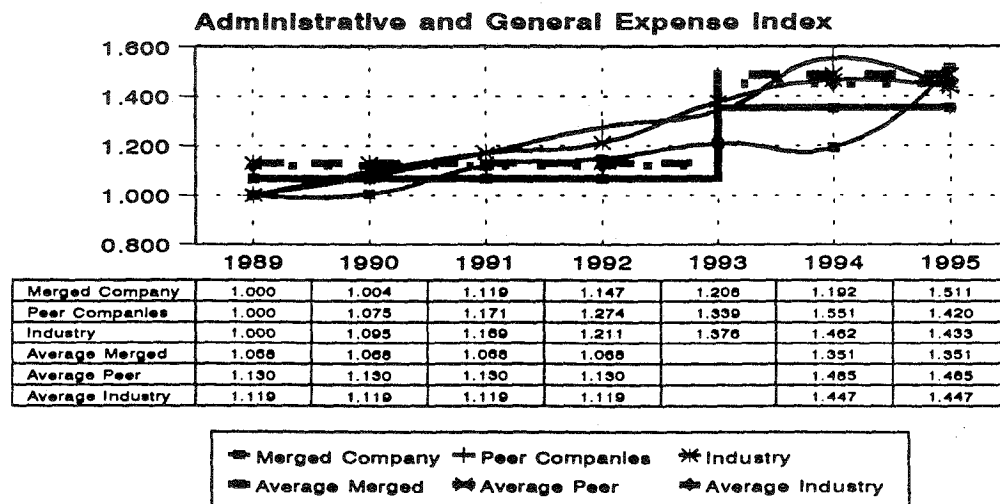


Analysis of the IES Utilities Merger

Employee Counts IES Merger In 1993

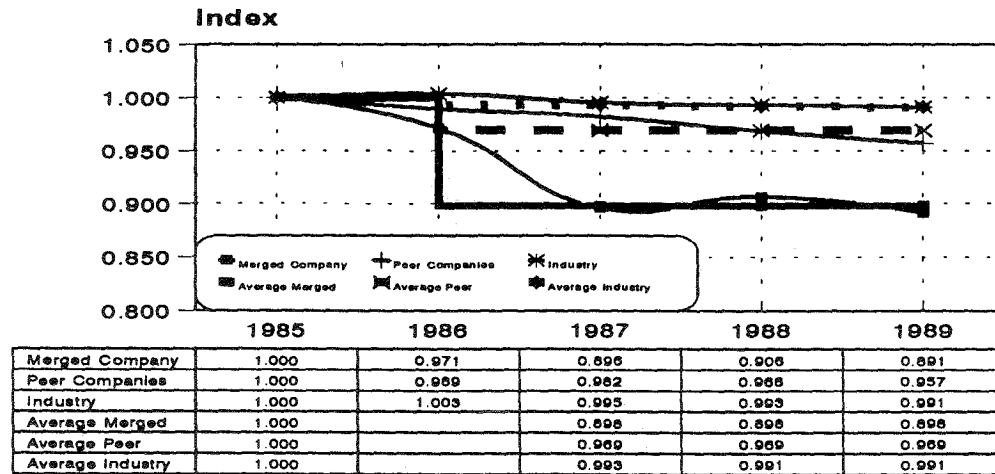


Administrative & General Expenses IES Merger In 1993



Analysis of the Centerior Merger

Employee Counts Centerior Merger in 1986



Administrative and General Expenses Centerior Merger in 1986

